

Amendment would audit Pentagon spending and provide budgetary transparency

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WASHINGTON, DC – Yesterday, Rep. Peter DeFazio (D-OR) offered a bipartisan amendment to force the Pentagon to produce auditable financial statements providing a clearer picture of how it spends tens of billions of taxpayer dollars each year. The House passed the amendment unanimously.

Currently, federal law exempts the Pentagon from conducting an audit. DeFazio's amendment would reverse this exemption.

"The Pentagon has spent more than \$10 trillion since 1990 and will spend over \$4 trillion over the next four years without ever passing an audit," said DeFazio. "As Congress debates substantial cuts to programs that help middle class families, we need a clear picture that allows us to target wasteful and duplicative spending. The Pentagon needs to be audited just like every other federal agency in order to achieve significant budget savings."

Federal law requires all federal agencies to produce auditable financial statements on a yearly basis. However, the Pentagon has never passed an audit and over the last 30 years the Department of Defense Inspector General and the General Accounting Office (GAO) have documented serious errors in the Pentagon's financial record keeping. For example, a March 2000 Inspector General report found that nearly one third of the accounting entries in the Pentagon's \$7.6 trillion budget were untraceable. In FY 2010, nearly half of the contracts awards in the Pentagon's \$366 billion were not fully completed.

"There is no reason that the largest and most expensive agency in the federal government should hide its financial books from scrutiny," said DeFazio. "We need to ensure that taxpayer dollars are used efficiently and effectively and this amendment would help achieve that goal."

The Pentagon was given an exemption to federal law in 2005, allowing it to avoid completing audits on a yearly basis. The exemption was contained in Section 376 of the Fiscal Year 2006 National Defense Authorization Act. DeFazio's amendment has the effect of repealing the exemption.

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BACKGROUND

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In 1990, Congress passed a law requiring all federal agencies – including DoD – to present auditable financial statements.

But for the last two decades, the Pentagon has never passed an audit. In fact, beginning in 1995, the Government Accountability Office documented serious errors in the agency's financial statements and designated DoD's financial management problems as "high risk."

In response, in 2001, Congress directed DoD to improve its financial management policies, procedures, and internal controls to make sure its audits were accurate and complete. This gentle nudge from Congress did not change DoD's ways.

In 2005, Congress barred the Department of Defense from obligating or expending funds to complete an audit until the Secretary submits a financial management improvement plan. The ban on completing an audit is contained in Section 376 of the Fiscal Year 2006 National Defense Authorization Act.

In 2009, Congress set a "goal" – not a mandate – to complete an audit by September 30, 2017. Yet, during a September 2010 hearing, Pentagon officials stated that meeting the 2017 timeline may not be realistic and the agency may need more money from Congress to achieve full

auditability.

The Department of Defense continues to shirk its fiduciary responsibilities under the law as Congress continues to appropriate record level defense budgets.

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- 30 -